



State of Washington
Department of Revenue

Excise Tax Advisory

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SALES TAX LIABILITY ON LEASE-PURCHASE AGREEMENTS

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Advice has been requested regarding Sales Tax liability where a lessee of articles of tangible personal property receives title to the property pursuant to a lease-purchase plan.

Many lease agreements contain provisions whereby the rent paid by a lessee is applied to the purchase price of the article leased. When the amount of rental payments made equals the selling price, the article becomes the property of the lessee, although additional consideration is sometimes required.

RCW 82.04.050 includes within the definition of "retail sale" the renting or leasing of tangible personal property to consumers. Rule 211 provides that the Sales Tax applies to the gross income from rentals at the time rental payments fall due. Gross income from rentals includes charges denominated as interest or carrying charges. It also includes property taxes on the leased articles when the lessee pays such taxes.

When the lessee receives title to the leased articles, Sales Tax is due only on the amount of any further consideration paid over and above the amount of the rental payments. (Letter.)

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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